

109TH CONGRESS  
1ST SESSION

# H. R. 3841

To amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 21, 2005

Mr. MANZULLO (for himself, Mr. GOHMERT, Mr. BARTLETT of Maryland, Mrs. KELLY, Mr. POE, Mr. AKIN, Mr. McCOTTER, and Mr. KING of Iowa) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS.**

5 (a) SHORT TITLE.—This Act may be cited as the  
6 “Small Employer Tax Relief Act of 2005”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-  
8 wise expressly provided, whenever in this Act an amend-  
9 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference  
 2 shall be considered to be made to a section or other provi-  
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—The table of contents is  
 5 as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.

#### TITLE I—TAX RELIEF

Sec. 101. SECA tax deduction for health insurance costs.

Sec. 102. Repeal of Federal unemployment surtax.

Sec. 103. Increase in expense treatment for small businesses.

Sec. 104. Increased deduction for business meal expenses.

Sec. 105. Alternative minimum tax.

Sec. 106. Credit for expenses for long-term training of employees in highly skilled small business trades.

Sec. 107. Permanent extension of work opportunity credit and Welfare-to-Work credit.

Sec. 108. Increase in contribution limits applicable to simple retirement accounts.

Sec. 109. Recovery period for depreciation of replacement roof systems, qualified leasehold improvement properties, and qualified restaurant properties.

#### TITLE II—TAX SIMPLIFICATION

Sec. 201. Depreciation modifications.

Sec. 202. Simplification of estimated tax rules.

Sec. 203. Qualified joint ventures operated by husband and wife as co-owners.

Sec. 204. Increase in Self-Employment exemption amount.

Sec. 205. Standard home office deduction.

#### TITLE III—S CORPORATION REFORM AND SIMPLIFICATION

Sec. 301. Treatment of bank director shares.

Sec. 302. Extension of time for making s corporation elections.

#### TITLE IV—TAXPAYER PROTECTIONS

Sec. 401. Taxpayer's right to have an IRS examination take place at another site.

Sec. 402. Relief from penalties for deposits of taxes made on a timely basis but not in the prescribed manner.

# **TITLE I—TAX RELIEF**

## **SEC. 101. SECA TAX DEDUCTION FOR HEALTH INSURANCE**

### **COSTS.**

(a) IN GENERAL.—Subsection (l) of section 162 (relating to special rules for health insurance costs of self-employed individuals) is amended by striking paragraph (4) and by redesignating paragraph (5) as paragraph (4).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(c) SOCIAL SECURITY TRUST FUNDS HELD HARMLESS.—There are hereby appropriated (out of any money in the Treasury not otherwise appropriated) for each fiscal year to each fund under the Social Security Act an amount equal to the reduction in the transfers to such fund for such fiscal year by reason of the amendment made by this section.

## **SEC. 102. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.**

(a) IN GENERAL.—Section 3301 (relating to rate of Federal unemployment tax) is amended—

(1) by striking “2007” and inserting “2005”,  
and

(2) by striking “2008” and inserting “2006”.

1 (b) EFFECTIVE DATE.—The amendment made by  
 2 this section shall apply to calendar years beginning after  
 3 December 31, 2005.

4 **SEC. 103. INCREASE IN EXPENSE TREATMENT FOR SMALL**  
 5 **BUSINESSES.**

6 (a) IN GENERAL.—Section 179(b)(1) (relating to dol-  
 7 lar limitation) is amended by striking “\$25,000 (\$100,000  
 8 in the case of taxable years beginning after 2002 and be-  
 9 fore 2008)” and inserting “\$100,000”.

10 (b) EXPANSION OF PHASE-OUT OF LIMITATION.—  
 11 Section 179(b)(2) is amended by striking “\$200,000  
 12 (\$400,000 in the case of taxable years beginning after  
 13 2002 and before 2008)” and inserting “\$400,000”.

14 (c) INFLATION ADJUSTMENTS.—Section  
 15 179(b)(5)(A) (relating to inflation adjustments) is amend-  
 16 ed by striking “and before 2008”.

17 (d) EFFECTIVE DATE.—The amendments made by  
 18 this section shall apply to taxable years beginning after  
 19 December 31, 2007.

20 **SEC. 104. INCREASED DEDUCTION FOR BUSINESS MEAL EX-**  
 21 **PENSES.**

22 (a) IN GENERAL.—Section 274(n)(1) (relating to  
 23 only 50 percent of meal and entertainment expenses al-  
 24 lowed as deduction) is amended by striking “50 percent”  
 25 in the text and inserting “the allowable percentage”.

1 (b) ALLOWABLE PERCENTAGE.—Section 274(n) is  
2 amended by redesignating paragraphs (2) and (3) as para-  
3 graphs (3) and (4), respectively, and by inserting after  
4 paragraph (1) the following new paragraph:

5 “(2) ALLOWABLE PERCENTAGE.—For purposes  
6 of paragraph (1), the allowable percentage is—

7 “(A) in the case of amounts for items de-  
8 scribed in paragraph (1)(B), 50 percent, and

9 “(B) in the case of expenses for food or  
10 beverages, 80 percent.”.

11 (c) CONFORMING AMENDMENTS.—

12 (1) The heading for subsection (n) of section  
13 274 is amended by striking “50 PERCENT” and in-  
14 serting “LIMITED PERCENTAGES”.

15 (2) Subparagraph (A) of section 274(n)(4), as  
16 redesignated by this section, is amended by striking  
17 “paragraph (1)” and inserting “paragraph (2)(A)”.

18 (d) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2005.

21 **SEC. 105. ALTERNATIVE MINIMUM TAX.**

22 (a) REPEAL OF ALTERNATIVE MINIMUM TAX ON IN-  
23 DIVIDUALS.—

1 (1) IN GENERAL.—Section 55(a) (relating to al-  
 2 ternative minimum tax) is amended by adding at the  
 3 end the following new flush sentence:

4 “For purposes of this title, the tentative minimum tax on  
 5 any taxpayer other than a corporation for any taxable year  
 6 beginning after December 31, 2009, shall be zero.”.

7 (2) REDUCTION OF TAX ON INDIVIDUALS PRIOR  
 8 TO REPEAL.—Section 55 is amended by adding at  
 9 the end the following new subsection:

10 “(f) PHASEOUT OF TAX ON INDIVIDUALS.—

11 “(1) IN GENERAL.—The tax imposed by this  
 12 section on a taxpayer other than a corporation for  
 13 any taxable year beginning after December 31,  
 14 2005, and before January 1, 2010, shall be the ap-  
 15 plicable percentage of the tax which would be im-  
 16 posed but for this subsection.

17 “(2) APPLICABLE PERCENTAGE.—For purposes  
 18 of paragraph (1), the applicable percentage shall be  
 19 determined in accordance with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2006 .....	80
2007 .....	60
2008 .....	40
2009 .....	20.”.

20 (3) EFFECTIVE DATE.—The amendments made  
 21 by this subsection shall apply to taxable years begin-  
 22 ning after December 31, 2005.

1 (b) NONREFUNDABLE PERSONAL CREDITS FULLY  
2 ALLOWED AGAINST ALTERNATIVE MINIMUM TAX.—

3 (1) IN GENERAL.—Section 26(a) (relating to  
4 limitation based on amount of tax) is amended to  
5 read as follows:

6 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The  
7 aggregate amount of credits allowed by this subpart for  
8 the taxable year shall not exceed the sum of—

9 “(1) the taxpayer’s regular tax liability for the  
10 taxable year reduced by the foreign tax credit allow-  
11 able under section 27(a), and

12 “(2) the tax imposed by section 55(a) for the  
13 taxable year.”.

14 (2) CONFORMING AMENDMENTS.—

15 (A) Section 23(b) is amended by striking  
16 paragraph (4).

17 (B) Section 24(b) is amended by striking  
18 paragraph (3).

19 (C) Section 25B is amended by striking  
20 subsection (g).

21 (3) EFFECTIVE DATE.—The amendments made  
22 by this subsection shall apply to taxable years begin-  
23 ning after December 31, 2005.

24 (c) EXPANSION OF THE EXEMPTION FROM THE AL-  
25 TERNATIVE MINIMUM TAX FOR SMALL CORPORATIONS.—

1           (1) IN GENERAL.—Section 55(e)(1)(A) (relating  
2           to exemption for small corporations) is amended to  
3           read as follows:

4                   “(A)   \$10,000,000   GROSS   RECEIPTS  
5           TEST.—The tentative minimum tax of a cor-  
6           poration shall be zero for any taxable year if  
7           the corporation’s average annual gross receipts  
8           for all 3-taxable-year periods ending before such  
9           taxable year does not exceed \$10,000,000. For  
10          purposes of the preceding sentence, only taxable  
11          years beginning after December 31, 200s, shall  
12          be taken into account.”.

13          (2) GROSS RECEIPTS TEST FOR FIRST 3-YEAR  
14          PERIOD.—Section 55(e)(1)(B) is amended to read as  
15          follows:

16                   “(B)   \$7,500,000   GROSS   RECEIPTS   TEST  
17          FOR FIRST 3-YEAR PERIOD.—Subparagraph (A)  
18          shall be applied by substituting ‘\$7,500,000’ for  
19          ‘\$10,000,000’ for the first 3-taxable-year period  
20          (or portion thereof) of the corporation which is  
21          taken into account under subparagraph (A).”.

22          (3) EFFECTIVE DATE.—The amendments made  
23          by this subsection shall apply to taxable years begin-  
24          ning after December 31, 2005.



1 **SEC. 106. CREDIT FOR EXPENSES FOR LONG-TERM TRAIN-**  
 2 **ING OF EMPLOYEES IN HIGHLY SKILLED**  
 3 **SMALL BUSINESS TRADES.**

4 (a) IN GENERAL.—Subpart D of part IV of sub-  
 5 chapter A of chapter 1 (relating to business related cred-  
 6 its) is amended by adding at the end the following new  
 7 section:

8 **“SEC. 45N. EXPENSES FOR LONG-TERM TRAINING OF EM-**  
 9 **PLOYEES IN HIGHLY SKILLED SMALL BUSI-**  
 10 **NESS TRADES.**

11 “(a) GENERAL RULE.—For purposes of section 38,  
 12 in the case of a small business employer, the highly skilled  
 13 trades training credit determined under this section for  
 14 the taxable year is \$15,000 for each employee having a  
 15 qualified training year ending with or within such taxable  
 16 year (whether or not such employee is an employee of the  
 17 taxpayer as of the close of such taxable year).

18 “(b) DEFINITIONS.—For purposes of this section—

19 “(1) SMALL BUSINESS EMPLOYER.—

20 “(A) IN GENERAL.—The term ‘small busi-  
 21 ness employer’ means, with respect to any tax-  
 22 able year, any employer who employed an aver-  
 23 age of 250 or fewer employees on business days  
 24 during such taxable year.

25 “(B) CONTROLLED GROUPS.—For pur-  
 26 poses of subparagraph (A), all persons treated

as a single employer under subsection (b), (c), (m), or (o) of section 414 shall be treated as a single employer.

“(2) QUALIFIED TRAINING YEAR.—

“(A) IN GENERAL.—The term ‘qualified training year’ means each year during the training period in which the employee received at least 1,500 hours of training (including on-the-job training and training at multi-employer training facilities) from the taxpayer (or any predecessor) under a qualified training program as an apprentice in any highly skilled trade.

“(B) HIGHLY SKILLED TRADES.—For purposes of subparagraph (A), the term ‘highly skilled trades’ means—

“(i) precision machinists,

“(ii) die makers,

“(iii) mold makers,

“(iv) tool and die designers,

“(v) heating, ventilating, air conditioning, refrigeration, and roofing contractors,

“(vi) the trade of masonry,

“(vii) plumbers,

“(viii) pipefitters,

1 “(ix) patternmakers,  
 2 “(x) foundry technicians,  
 3 “(xi) electricians,  
 4 “(xii) recreational marine production  
 5 and design workers,  
 6 “(xiii) 2-way radio technicians, and  
 7 “(xiv) other highly skilled trades spec-  
 8 ified in regulations prescribed by the Sec-  
 9 retary.

10 Such term shall not include any trade if the  
 11 customary apprenticeship period for such trade  
 12 is less than 2 years.

13 “(C) QUALIFIED TRAINING PROGRAM.—

14 “(i) IN GENERAL.—The term ‘quali-  
 15 fied training program’ means a written  
 16 plan of study and training for individuals  
 17 in, or entering into, highly skilled trades.

18 “(ii) DESCRIPTION OF PROGRAMS.—A  
 19 plan under clause (i) must be a program  
 20 described in one of the following sub-  
 21 clauses:

22 “(I) An apprenticeship program  
 23 registered and certified with the Sec-  
 24 retary of Labor under section 1 of the

1 National Apprenticeship Act (29  
2 U.S.C. 50).

3 “(II) A program licensed, reg-  
4 istered, or certified by the workforce  
5 investment board or apprenticeship  
6 agency or council of a State or admin-  
7 istered in compliance with apprentice-  
8 ship laws of a State.

9 “(III) A program conducted by a  
10 vocational or technical education  
11 school, community college, or indus-  
12 trial or trade training organization.

13 “(IV) A program which conforms  
14 to apprentice training programs devel-  
15 oped or administered by an employer  
16 trade group or committee.

17 “(V) An industry sponsored or  
18 administered program which is clearly  
19 identified and commonly recognized  
20 within an industry and which meets  
21 the requirements of clause (iii).

22 “(iii) REQUIREMENTS.—A program  
23 meets the requirements of this clause if  
24 such program—

1           “(I) is accessible to individuals  
2 without discrimination on the basis of  
3 race, sex, color, religion, or national  
4 origin,

5           “(II) provides an overview of the  
6 trade, including the history and mod-  
7 ern developments in such trade,

8           “(III) provides related instruc-  
9 tion of the fundamental, intermediate,  
10 and advanced skills, techniques, and  
11 materials of the trade,

12           “(IV) provides training in math,  
13 measurement, and blueprint reading  
14 skills, if such skills are required in the  
15 trade,

16           “(V) provides training on trade  
17 specific tools and equipment,

18           “(VI) provides on-the-job train-  
19 ing which allows performance of work  
20 under close supervision of an instruc-  
21 tor or skilled worker, and

22           “(VII) provides periodic review  
23 and evaluation of participants to dem-  
24 onstrate proficiency in skills, including

1 the use of tests and assessment of in-  
2 dividual and group projects.

3 “(3) TRAINING PERIOD.—The term ‘training  
4 period’ means, with respect to an employee, the pe-  
5 riod—

6 “(A) beginning on the date that the em-  
7 ployee begins employment with the taxpayer as  
8 an apprentice in the highly skilled trade, and

9 “(B) ending on the earlier of—

10 “(i) the date that such apprenticeship  
11 with the employer ends, or

12 “(ii) the date which is 4 years after  
13 the date referred to in subparagraph (A).

14 “(c) COORDINATION WITH OTHER CREDITS.—The  
15 amount of credit otherwise allowable under sections 51(a)  
16 and 1396(a) with respect to any employee shall be reduced  
17 by the credit allowed by this section with respect to such  
18 employee.”.

19 (b) CREDIT MADE PART OF GENERAL BUSINESS  
20 CREDIT.—Subsection (b) of section 38 is amended by  
21 striking “plus” at the end of paragraph (25), by striking  
22 the period at the end of paragraph (26) and inserting “,  
23 plus”, and by adding at the end the following new para-  
24 graph:

1           “(27) in the case of a small business employer  
 2           (as defined in section 45N(b)), the highly skilled  
 3           trades training credit determined under section  
 4           45N(a).”.

5           (c) DENIAL OF DOUBLE BENEFIT.—Section 280C is  
 6 amended by adding at the end the following new sub-  
 7 section:

8           “(e) CREDIT FOR TRAINING EXPENSES FOR EM-  
 9 PLOYEES IN HIGHLY SKILLED SMALL BUSINESS  
 10 TRADES.—No deduction shall be allowed for that portion  
 11 of the expenses otherwise allowable as a deduction for the  
 12 taxable year which is equal to the amount of the credit  
 13 determined for the taxable year under section 45N(a).”.

14           (d) CLERICAL AMENDMENT.—The table of sections  
 15 for subpart D of part IV of subchapter A of chapter 1  
 16 is amended by adding at the end the following new item:

“Sec. 45N. Expenses for long-term training of employees in highly skilled small  
 business trades.”.

17           (e) EFFECTIVE DATE.—The amendments made by  
 18 this section shall apply to expenses paid or incurred in  
 19 the taxable years ending after the date of the enactment  
 20 of this Act.

21 **SEC. 107. PERMANENT EXTENSION OF WORK OPPORTUNITY**

22 **CREDIT AND WELFARE-TO-WORK CREDIT.**

23           (a) WORK OPPORTUNITY CREDIT.—

1 (1) IN GENERAL.—Section 51(c) is amended by  
2 striking paragraph (4).

3 (2) CONFORMING AMENDMENT.—Section  
4 51A(a)(5)(A) is amended by striking “, without re-  
5 gard to paragraph (4) thereof”.

6 (b) WELFARE-TO-WORK CREDIT.—Section 51A is  
7 amended by striking subsection (f).

8 (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to individuals who begin work the  
10 employer after December 31, 2005.

11 **SEC. 108. INCREASE IN CONTRIBUTION LIMITS APPLICA-**  
12 **BLE TO SIMPLE RETIREMENT ACCOUNTS.**

13 (a) IN GENERAL.—Subparagraph (E) of section  
14 408(p)(2) is amended to read as follows:

15 “(E) APPLICABLE DOLLAR AMOUNT.—For  
16 purposes of subparagraph (A)(ii), the applicable  
17 dollar amount for any year beginning in any  
18 calendar year is the applicable dollar amount  
19 determined under section 402(g)(1)(B) for tax-  
20 able years beginning in such calendar year.”.

21 (b) EFFECTIVE DATE.—The amendment made by  
22 this section shall apply to years beginning after December  
23 31, 2005.



1 **SEC. 109. RECOVERY PERIOD FOR DEPRECIATION OF RE-**  
 2 **PLACEMENT ROOF SYSTEMS, QUALIFIED**  
 3 **LEASEHOLD IMPROVEMENT PROPERTIES,**  
 4 **AND QUALIFIED RESTAURANT PROPERTIES.**

5 (a) REPLACEMENT ROOF SYSTEMS.—Subparagraph  
 6 (E) of section 168(e)(3) (relating to classification of cer-  
 7 tain property) is amended by striking “and” at the end  
 8 of clause (v), by striking the period at the end of clause  
 9 (vi), and inserting “, and”, and by adding at the end the  
 10 following new clause:

11 “(vii) any roof system which is in-  
 12 stalled on a building after such building is  
 13 placed in service by the taxpayer.”.

14 (b) REQUIREMENT TO USE STRAIGHT LINE METH-  
 15 OD.—

16 (1) IN GENERAL.—Paragraph (3) of section  
 17 168(b) (relating to property to which straight line  
 18 method applies) is amended by adding after sub-  
 19 paragraph (H) the following new subparagraph:

20 “(I) Property described in subsection  
 21 (e)(3)(E)(vii).”.

22 (2) CONFORMING AMENDMENT.—Subparagraph  
 23 (A) of section 168(b)(2) of such Code is amended by  
 24 inserting “(other than property described in sub-  
 25 section (e)(3)(E)(vii))” before the comma at the end.

1 (c) QUALIFIED LEASEHOLD IMPROVEMENT PROP-  
 2 ERTIES AND QUALIFIED RESTAURANT PROPERTIES.—  
 3 Subparagraph (E) of section 168(e)(3) (relating to classi-  
 4 fication of certain property) is amended—

5 (1) in clause (iv) by striking “placed in service  
 6 before January 1, 2006”, and

7 (2) in clause (v) by striking “placed in service  
 8 before January 1, 2006”.

9 (d) EFFECTIVE DATE.—The amendments made by  
 10 this section shall apply to property placed in service after  
 11 December 31, 2005.

## 12 **TITLE II—TAX SIMPLIFICATION**

### 13 **SEC. 201. DEPRECIATION MODIFICATIONS.**

14 (a) COMPUTER SOFTWARE ELIGIBLE FOR EXPENS-  
 15 ING.—

16 (1) IN GENERAL.—The heading and first sen-  
 17 tence of section 179(d)(1) (relating to section 179  
 18 property) are amended to read as follows:

19 “(1) SECTION 179 PROPERTY.—For purposes of  
 20 this section, the term ‘section 179 property’ means  
 21 property—

22 “(A) which is—

23 “(i) tangible property to which section  
 24 168 applies, or

1 “(ii) computer software (as defined in  
2 section 197(e)(3)(B)) to which section 167  
3 applies,

4 “(B) which is section 1245 property (as  
5 defined in section 1245(a)(3)), and

6 “(C) which is acquired by purchase for use  
7 in the active conduct of a trade or business.”.

8 (2) NO COMPUTER SOFTWARE INCLUDED AS  
9 SECTION 197 INTANGIBLE.—

10 (A) IN GENERAL.—Section 197(e)(3)(A) is  
11 amended to read as follows:

12 “(A) IN GENERAL.—Any computer soft-  
13 ware.”.

14 (B) CONFORMING AMENDMENT.—Section  
15 167(f)(1)(B) is amended by striking “; except  
16 that such term shall not include any such soft-  
17 ware which is an amortizable section 197 intan-  
18 gible”.

19 (b) 2-YEAR APPLICABLE RECOVERY PERIOD FOR  
20 DEPRECIATION OF COMPUTERS AND PERIPHERAL EQUIP-  
21 MENT.—

22 (1) IN GENERAL.—Section 168(c) (relating to  
23 applicable recovery period) is amended by adding at  
24 the end the following flush sentence:

1 “In the case of 5-year property which is a computer or  
2 peripheral equipment, the applicable recovery period shall  
3 be 2 years.”.

4 (2) CONFORMING AMENDMENTS.—

5 (A) Section 168(g)(3)(C) (relating to alter-  
6 native depreciation system for certain property)  
7 is amended to read as follows:

8 “(C) QUALIFIED TECHNOLOGICAL EQUIP-  
9 MENT.—

10 “(i) IN GENERAL.—Except as pro-  
11 vided in clause (ii), in the case of any  
12 qualified technological equipment, the re-  
13 covery period used for purposes of para-  
14 graph (2) shall be 5 years.

15 “(ii) COMPUTERS OR PERIPHERAL  
16 EQUIPMENT.—In the case of any computer  
17 or peripheral equipment, the recovery pe-  
18 riod used for purposes of paragraph (2)  
19 shall be 2 years.”.

20 (B) Section 168(j)(2) (relating to deprecia-  
21 tion of property on Indian reservations) is  
22 amended by adding at the end the following  
23 flush sentence:

1 “In the case of 5-year property which is a computer or  
 2 peripheral equipment, the applicable recovery period shall  
 3 be 1 year.”.

4 (C) Section 467(e)(3)(A) (relating to cer-  
 5 tain payments for the use of property or serv-  
 6 ices) is amended by adding at the end the fol-  
 7 lowing flush sentence:

8 “In the case of 5-year property which is a computer or  
 9 peripheral equipment, the applicable recovery period shall  
 10 be 2 years.”.

11 (c) 2-YEAR DEPRECIATION PERIOD FOR COMPUTER  
 12 SOFTWARE.—Section 167(f)(1)(A) is amended by striking  
 13 “36 months” and inserting “24 months”.

14 (d) ADJUSTMENTS ON DEPRECIATION LIMITS FOR  
 15 LUXURY AUTOMOBILES.—

16 (1) IN GENERAL.—Section 280F(a)(1)(A) (re-  
 17 lating to limitation on amount of depreciation for  
 18 luxury automobiles) is amended—

19 (A) by striking “\$2,560” in clause (i) and  
 20 inserting “\$6,000”;

21 (B) by striking “\$4,100” in clause (ii) and  
 22 inserting “\$9,600”;

23 (C) by striking “\$2,450” in clause (iii) and  
 24 inserting “\$5,760”; and

1 (D) by striking “\$1,475” in clause (iv) and  
2 inserting “\$3,460”.

3 (2) CONFORMING AMENDMENTS.—

4 (A) Section 280F(a)(1)(B)(ii) (relating to  
5 disallowed deductions allowed for years after re-  
6 covery period) is amended by striking “\$1,475”  
7 each place that it appears and inserting  
8 “\$3,460”.

9 (B) Section 280F(d)(7) is amended—

10 (i) in subparagraph (A) by striking  
11 “1988” and inserting “2006”, and

12 (ii) in subparagraph (B)(i)(II) by  
13 striking “1987” and inserting “2005”.

14 (e) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to property placed in service after  
16 December 31, 2005.

17 **SEC. 202. SIMPLIFICATION OF ESTIMATED TAX RULES.**

18 (a) IN GENERAL.—Section 6654(d)(1) (relating to  
19 failure by an individual to pay estimated income tax) is  
20 amended by striking subparagraph (C).

21 (b) EFFECTIVE DATE.—The amendment made by  
22 this section shall apply to taxable years beginning after  
23 the date of the enactment of this Act.

1 **SEC. 203. QUALIFIED JOINT VENTURES OPERATED BY HUS-**  
 2 **BAND AND WIFE AS CO-OWNERS.**

3 (a) IN GENERAL.—Section 761 of the Internal Rev-  
 4 enue Code of 1986 (defining terms for purposes of part-  
 5 nerships) is amended by redesignating subsection (f) as  
 6 subsection (g) and by inserting after subsection (e) the  
 7 following new subsection:

8 “(f) QUALIFIED JOINT VENTURE.—

9 “(1) IN GENERAL.—In the case of a qualified  
 10 joint venture conducted by a husband and wife who  
 11 file a joint return for the taxable year, for purposes  
 12 of this title—

13 “(A) such joint venture shall not be treat-  
 14 ed as a partnership,

15 “(B) all items of income, gain, loss, deduc-  
 16 tion, and credit shall be divided between the  
 17 spouses in accordance with their respective in-  
 18 terests in the venture, and

19 “(C) each spouse shall take into account  
 20 such spouse’s respective share of such items as  
 21 if they were attributable to a trade or business  
 22 conducted by such spouse as a sole proprietor.

23 “(2) QUALIFIED JOINT VENTURE.—For pur-  
 24 poses of paragraph (1), the term ‘qualified joint ven-  
 25 ture’ means any joint venture involving the conduct  
 26 of a trade or business if—

1           “(A) the only members of such joint ven-  
2           ture are a husband and wife,

3           “(B) both spouses materially participate  
4           (within the meaning of section 469(h) without  
5           regard to paragraph (5) thereof) in such trade  
6           or business, and

7           “(C) both spouses elect the application of  
8           this subsection.”.

9           (b) NET EARNINGS FROM SELF-EMPLOYMENT.—

10           (1) Subsection (a) of section 1402 of such Code  
11           (defining net earnings from self-employment) is  
12           amended by striking “and” at the end of paragraph  
13           (15), by striking the period at the end of paragraph  
14           (16) and inserting “; and”, and by inserting after  
15           paragraph (16) the following new paragraph:

16           “(17) notwithstanding the preceding provisions  
17           of this subsection, each spouse’s share of income or  
18           loss from a qualified joint venture shall be taken  
19           into account as provided in section 761(f) in deter-  
20           mining net earnings from self-employment of such  
21           spouse.”.

22           (2) Subsection (a) of section 211 of the Social  
23           Security Act (defining net earnings from self-em-  
24           ployment) is amended by striking “and” at the end  
25           of paragraph (15), by striking the period at the end



1 of paragraph (16) and inserting “; and”, and by in-  
 2 serting after paragraph (16) the following new para-  
 3 graph:

4 “(17) Notwithstanding the preceding provisions  
 5 of this subsection, each spouse’s share of income or  
 6 loss from a qualified joint venture shall be taken  
 7 into account as provided in section 761(f) of the In-  
 8 ternal Revenue Code of 1986 in determining net  
 9 earnings from self-employment of such spouse.”.

10 (c) EFFECTIVE DATE.—The amendments made by  
 11 this section shall apply to taxable years beginning after  
 12 the date of the enactment of this Act.

13 **SEC. 204. INCREASE IN SELF-EMPLOYMENT EXEMPTION**  
 14 **AMOUNT.**

15 (a) IN GENERAL.—Paragraph (2) of section 1402(b)  
 16 (defining self-employment income) is amended by striking  
 17 “\$400” and inserting “\$1,000”.

18 (b) ADJUSTMENT FOR INFLATION.—Section 1402  
 19 (definitions relating to self-employment income) is amend-  
 20 ed by adding at the end the following new subsection:

21 “(l) ADJUSTMENT FOR INFLATION.—

22 “(1) IN GENERAL.—In the case of any taxable  
 23 year beginning in a calendar year after 2006, the  
 24 \$1,000 amount contained in subsection (b)(2) shall  
 25 be increased by an amount equal to—

1 “(A) \$1,000, multiplied by

2 “(B) the cost-of-living adjustment deter-  
3 mined under section 1(f)(3) for the calendar  
4 year in which the taxable year begins by sub-  
5 stituting ‘calendar year 2005’ for ‘calendar year  
6 1992’ in subparagraph (B) thereof.

7 “(2) ROUNDING.—If any increase determined  
8 under paragraph (1) is not a multiple of \$10, such  
9 increase shall be rounded to the next lowest multiple  
10 of \$10.”.

11 (c) RETURN REQUIREMENTS.—Section 6017 (relat-  
12 ing to self-employment tax returns) is amended by striking  
13 “of \$400 or more” and inserting “of an amount which  
14 equals or exceeds the amount in effect under section  
15 1402(b)(2)”.

16 (d) CONFORMING AMENDMENTS.—

17 (1) Paragraphs (3) and (4) of section 1402(e)  
18 are each amended by striking “of \$400 or more”  
19 and inserting “which equals or exceeds the amount  
20 in effect for the taxable year under subsection  
21 (b)(2)”.

22 (2) Subsection (h) of section 1402 is amended  
23 by striking “\$400” and inserting “the amount in ef-  
24 fect for the taxable year under subsection (b)(2)”.

1           (3) Subparagraph (B) of section 1402(j)(2) is  
2       amended to read as follows:

3           “(B) FLOOR.—In applying paragraph (2)  
4       of subsection (b) to church employee income,  
5       ‘\$200’ shall be substituted for the amount in ef-  
6       fect for the taxable year under such paragraph  
7       (2) (as adjusted by subsection (l)).”.

8       (e) EFFECTIVE DATE.—The amendments made by  
9       this section shall apply to taxable years beginning after  
10      December 31, 2005.

11      **SEC. 205. STANDARD HOME OFFICE DEDUCTION.**

12       (a) IN GENERAL.—Section 280A(c) is amended by  
13      adding at the end the following new paragraph:

14           “(7) STANDARD HOME OFFICE DEDUCTION.—

15           “(A) IN GENERAL.—The deductions allow-  
16       able by this chapter by reason of being attrib-  
17       uted to a use referred to in paragraph (5) (be-  
18       fore the application of paragraph (5)) shall not  
19       be less than the lesser of—

20           “(i) \$2,500, or

21           “(ii) the gross income of the trade or  
22       business in which such use occurs.

23           “(B) INFLATION ADJUSTMENT.—In the  
24       case of any taxable year beginning in a calendar  
25       year after 2006, the \$2,500 amount contained

1 in subparagraph (A)(i) shall be increased by an  
 2 amount equal to—

3 “(i) such dollar amount, multiplied by

4 “(ii) the cost-of-living adjustment de-  
 5 termined under section 1(f)(3) for the cal-  
 6 endar year in which the taxable year be-  
 7 gins, determined by substituting ‘calendar  
 8 year 2054’ for ‘calendar year 1992’ in sub-  
 9 paragraph (B) thereof.

10 Any increase determined under the preceding  
 11 sentence shall be rounded to the nearest mul-  
 12 tiple of \$50.”.

13 (b) EFFECTIVE DATE.—The amendment made by  
 14 this section shall apply to taxable years beginning after  
 15 December 31, 2005.

## 16 **TITLE III—S CORPORATION** 17 **REFORM AND SIMPLIFICATION**

### 18 **SEC. 301. TREATMENT OF BANK DIRECTOR SHARES.**

19 (a) IN GENERAL.—Section 1361 (defining S corpora-  
 20 tion) is amended by adding at the end the following new  
 21 subsection:

22 “(f) RESTRICTED BANK DIRECTOR STOCK.—

23 “(1) IN GENERAL.—Restricted bank director  
 24 stock shall not be taken into account as outstanding

1 stock of the S corporation in applying this sub-  
2 chapter (other than section 1368(f)).

3 “(2) RESTRICTED BANK DIRECTOR STOCK.—

4 For purposes of this subsection, the term ‘restricted  
5 bank director stock’ means stock in a bank (as de-  
6 fined in section 581), a bank holding company (with-  
7 in the meaning of section 2(a) of the Bank Holding  
8 Company Act of 1956 (12 U.S.C. 1841(a))), or a fi-  
9 nancial holding company (within the meaning of sec-  
10 tion 2(p) of such Act), registered with the Federal  
11 Reserve System, if such stock—

12 “(A) is required to be held by an individual  
13 under applicable Federal or State law in order  
14 to permit such individual to serve as a director,  
15 and

16 “(B) is subject to an agreement with such  
17 bank or company (or a corporation which con-  
18 trols (within the meaning of section 368(c))  
19 such bank or company) pursuant to which the  
20 holder is required to sell back such stock (at  
21 the same price as the individual acquired such  
22 stock) upon ceasing to hold the office of direc-  
23 tor.

1           “(3) CROSS REFERENCE.—For treatment of  
2           certain distributions with respect to restricted bank  
3           director stock, see section 1368(f).”.

4           (b) DISTRIBUTIONS.—Section 1368 (relating to dis-  
5           tributions) is amended by adding at the end the following  
6           new subsection:

7           “(f) RESTRICTED BANK DIRECTOR STOCK.—If a di-  
8           rector receives a distribution (not in part or full payment  
9           in exchange for stock) from an S corporation with respect  
10          to any restricted bank director stock (as defined in section  
11          1361(f)), the amount of such distribution—

12           “(1) shall be includible in gross income of the  
13          director, and

14           “(2) shall be deductible by the corporation for  
15          the taxable year of such corporation in which or with  
16          which ends the taxable year in which such amount  
17          is included in the gross income of the director.”.

18          (c) EFFECTIVE DATE.—The amendments made by  
19          this section shall apply to taxable years beginning after  
20          December 31, 2005.

21       **SEC. 302. EXTENSION OF TIME FOR MAKING S CORPORA-**  
22                               **TION ELECTIONS.**

23          (a) IN GENERAL.—Subsection (b) of section 1362  
24          (relating to when subchapter S election made) is amended  
25          to read as follows:

1 “(b) WHEN MADE.—

2 “(1) IN GENERAL.—An election under sub-  
3 section (a) may be made by a small business cor-  
4 poration for any taxable year at any time during the  
5 period—

6 “(A) beginning on the first day of the pre-  
7 ceding taxable year, and

8 “(B) ending on the due date (with exten-  
9 sions) for filing the return for the taxable year.

10 “(2) CERTAIN ELECTIONS TREATED AS MADE  
11 FOR NEXT TAXABLE YEAR.—If—

12 “(A) an election under subsection (a) is  
13 made for any taxable year within the period de-  
14 scribed in paragraph (1), but

15 “(B) either—

16 “(i) on 1 or more days in such taxable  
17 year before the day on which the election  
18 was made the corporation did not meet the  
19 requirements of subsection (b) of section  
20 1361, or

21 “(ii) 1 or more of the persons who  
22 held stock in the corporation during such  
23 taxable year and before the election was  
24 made did not consent to the election,

1           then such election shall be treated as made for  
2           the following taxable year.

3           “(3) ELECTION MADE AFTER DUE DATE  
4       TREATED AS MADE FOR FOLLOWING TAXABLE  
5       YEAR.—If—

6           “(A) a small business corporation makes  
7           an election under subsection (a) for any taxable  
8           year, and

9           “(B) such election is made after the due  
10          date (with extensions) for filling the return for  
11          such year,

12       then such election shall be treated as made for the  
13       following taxable year.

14       “(4) AUTHORITY TO TREAT LATE ELECTIONS,  
15       ETC., AS TIMELY.—If—

16       “(A) an election under subsection (a) is  
17       made for any taxable year (determined without  
18       regard to paragraph (3)) after the date pre-  
19       scribed by this subsection for making such elec-  
20       tion for such taxable year or no such election is  
21       made for any taxable year, and

22       “(B) the Secretary determines that there  
23       was reasonable cause for the failure to timely  
24       make such election,



1 the Secretary may treat such an election as timely  
2 made for such taxable year (and paragraph (3) shall  
3 not apply).”.

4 (b) REVOCATIONS.—Subparagraph (C) of section  
5 1362(d)(1) of such Code is amended to read as follows:

6 “(C) WHEN EFFECTIVE.—Except as pro-  
7 vided in subparagraph (D)—

8 “(i) a revocation made on or before  
9 the due date (with extensions) for filing  
10 the return for a taxable year shall be effec-  
11 tive on the 1st day of such taxable year  
12 unless the revocation specifies that it is to  
13 take effect on the 1st day of the taxable  
14 year in which made, and

15 “(ii) a revocation made during a tax-  
16 able year but after the due date (with ex-  
17 tensions) for filing the return for the pre-  
18 ceding taxable year shall be effective on  
19 the 1st day of the taxable year.”.

20 (c) EFFECTIVE DATE.—The amendment made by  
21 this section shall apply to elections for taxable years begin-  
22 ning after December 31, 2005.

## **TITLE IV—TAXPAYER PROTECTIONS**

### **SEC. 401. TAXPAYER’S RIGHT TO HAVE AN IRS EXAMINATION TAKE PLACE AT ANOTHER SITE.**

(a) IN GENERAL.—Section 7605(a) (relating to time and place of examination) is amended to read as follows:

“(a) TIME AND PLACE.—

“(1) IN GENERAL.—The time and place of examination pursuant to the provisions of section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602 shall be such time and place as may be fixed by the Secretary and as are reasonable under the circumstances. In the case of a summons under authority of paragraph (2) of section 7602, or under the corresponding authority of section 6420(e)(2), 6421(g)(2), or 6427(j)(2), the date fixed for appearance before the Secretary shall not be less than 10 days from the date of the summons.

“(2) LIMITATION.—Upon request of a taxpayer, the Secretary shall conduct any examination described in paragraph (1) at a location other than the taxpayer’s residence or place of business, if such location is reasonably accessible to the Secretary and the taxpayer’s original books and records pertinent to the examination are available at such location.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to examinations occurring after the  
3 date of the enactment of this Act.

4 **SEC. 402. RELIEF FROM PENALTIES FOR DEPOSITS OF**  
5 **TAXES MADE ON A TIMELY BASIS BUT NOT IN**  
6 **THE PRESCRIBED MANNER.**

7 (a) IN GENERAL.—Section 6656 of the Internal Rev-  
8 enue Code of 1986 (relating to failure to make deposits  
9 of taxes) is amended by redesignating subsection (e) as  
10 subsection (f) and by inserting after subsection (d) the fol-  
11 lowing new subsection:

12 “(e) RELIEF FROM PENALTIES FOR DEPOSITS OF  
13 TAXES MADE ON A TIMELY BASIS BUT NOT IN THE PRE-  
14 SCRIBED MANNER.—The Secretary may abate all or any  
15 portion of the penalty imposed by subsection (a) on the  
16 failure to make a deposit in the manner prescribed by the  
17 Secretary if—

18 “(1) the deposit was made not later than the  
19 date prescribed therefor, and

20 “(2) such failure was due to reasonable cause  
21 and not willful neglect.

22 The applicable percentage under subsection (b) shall not  
23 exceed 2 percent in the case of any failure with respect  
24 to which the requirements of paragraphs (1) and (2) are  
25 met.”.

1       (b) CONFORMING AMENDMENT.—Subparagraph (A)  
2 of section 6656(b)(1) of such Code is amended by striking  
3 “subparagraph (B)” and inserting “subparagraph (B) and  
4 subsection (e)”.

5       (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to deposits required to be made  
7 after the date of the enactment of this Act.

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